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Anonymous

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Accounting for Franchises

IT IS surprising how strangely lacking in completeness are books on accounting in their treatment of accounting for franchises. Any number of good books, both in the engineering and the accounting fields, discuss at length the theory of franchises and their valuation, but few deal adequately, if at all, with the accounting therefor and particularly the amortization thereof.

A franchise, being a governmental grant for the use of property, either for a term of years or in perpetuity, is obtained frequently without much expense or cost, except for legal services. In other instances, lump sum payments of considerable or of large size may be necessary in order to obtain the grant. It also happens, as a rule, that when franchises pass from the original grantee to some subsequent holder there is considerable money value involved. Where the expenses in connection with obtaining a franchise are insignificant, there is little need for concern as to their disposition. On the other hand, where considerable amounts are involved and the term of the franchise is less than perpetuity, there is an element of deferred cost which may not with propriety be overlooked. To charge the first cost of obtaining a franchise where any considerable amount is involved to one year, would be to work an injustice to the stockholders of that particular year. To spread the cost over the life of the franchise is the method usually accepted as being proper, since it equalizes the charges among the years benefited by the franchise and bears a proper relation to the shareholders of the various years.

A franchise for a term of years is a wasting asset, and like physical property should be written down or amortized through a reserve. A franchise in perpetuity offers no basis for such treatment, but may be

re-valued from time to time as conditions warrant. Amortization of term franchises should follow the straight line method, which results in a charge to operations annually of equal amount. The use of any method other than the straight line is to be deplored for the reason that any other method will result in unequal annual charges to operations.

The treatment of franchises sometimes becomes a more difficult one where, after having been in existence and undergoing process of amortization for some time, two or more franchises are merged and superseded by a more comprehensive one. In a case of this kind the question is what to do with the unamortized cost of contributing franchises, which question is usually settled by merging the unamortized cost of old franchises with the cost of obtaining the superseding franchise, and spreading the whole cost over the period of years representing the life of the new franchise.

It sometimes happens that physical property is also closely related to franchises, and it is regarded as entirely proper from the point of view of good accounting that the depreciated cost of such physical property shall be included in the cost of the new franchise, and, in like manner, spread over the succeeding period of years during which the franchise runs. Thus, in a case where water rights with a power generating station are superseded by a larger project which absorbs the rights first named and wipes out the site of the first generating station, it appears proper that the cost of the new franchise should include not only the unamortized cost of the original franchise, but the depreciated cost of the physical property representing the generating station, less any salvage resulting from the scrapping thereof.

It would be illuminating if authors in treating this important subject would give

some consideration to the possibilities surrounding the use of modern franchises, and offer some suggestions as to the accounting necessary to properly reflect the various phases of such activities. It is of as much importance to know what should be done with franchise costs after they have once been placed on the books as to know the entries necessary to set them up.

Ralph T. Hollis

IT IS with deep sorrow that we announce the death on September 10, 1922, of Mr. Ralph T. Hollis, a member of the firm, and resident partner at the London Office.

Mr. Hollis sailed for this country from Southampton on August 17, by the steamship *Caronia*, in order to attend our annual meeting. On the second day out he was stricken by an illness which defied the analysis of the ship's doctors. On August 25, we received a radiogram from the *Caronia* reading: "Urgent meet Hollis. Necessary arrange hospital." The ship was due the next morning and Mr. Sells and Mr. Carter were at the pier with an ambulance in which they conveyed Mr. Hollis to the Roosevelt Hospital. There, after numerous consultations, the malady was diagnosed as epidemic encephalitis, commonly known as sleeping sickness—a disease extremely rare in this country.

In spite of the heroic efforts of doctors and nurses, and the best of care and attention, it was impossible to combat the disease, and Mr. Hollis sank steadily until the end on Sunday morning, September 10, at about 6.30 A.M.

A funeral service by an Episcopal minister was held at four o'clock on Tuesday afternoon, September 12, at the Campbell Funeral Church. The body was sent back to London by the steamship *President Garfield*, sailing on Wednesday, the 13th. Mr. F. A. Tilton, representing the firm,

accompanied the body to London, where Mr. Hollis is survived by his wife and three children.

Mr. Hollis was born in London, July 7, 1874. His first accounting experience was gained through an apprenticeship, at the age of 16, to Mr. F. Barnes of Messrs. Barnes, Dunn and Broughton, Chartered Accountants, London, England. From 1897 to 1905 he conducted his own practice in London as R. T. Hollis & Company.

Coming to this country, he joined the staff of N. A. Hawkins & Company in Detroit, Michigan, a connection maintained continuously from 1905 to 1908. In the latter year he withdrew to resume practice on his own account in Detroit under the name of R. T. Hollis & Company.

This practice prospered and on May 1, 1915, he admitted to partnership Mr. F. A. Tilton and Mr. T. L. W. Porte, the style of the firm being changed to Hollis, Tilton and Porte.

On August 1, 1921, the practice of Hollis, Tilton and Porte was consolidated with that of Haskins & Sells. Messrs. Hollis, Tilton, and Porte were admitted to membership in the firm, Mr. Hollis later returning to London as our resident partner.

Mr. Hollis was a member of the Institute of Chartered Accountants in England and Wales, and a certified public accountant of Michigan. His loss will be deeply felt by the many friends and associates whom he had drawn about himself during his honorable and successful career.

National Association Enjoined

THE Supreme Court of the District of Columbia under date of July 27, 1922, announced by final decree that the National Association of Certified Public Accountants, defendant in an action brought by the United States of America, has been "perpetually restrained and enjoined from